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Message Text

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ACTION EUR-12

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POUCHED INFO ALL CONSULATES IN CANADA

E.O. 11652: N/A
TAGS: EFIN SCUL CA
SUBJECT: TIME-READER'S DIGEST TAX CHANGES

REF: OTTAWA 741

1. MONTREAL GAZETTE ON MARCH 1 PUBLISHED LONGER VERSION OF ARTICLE TRANSMITTED IN REFTEL. FOLLOWING IS CONTINUATION OF MATERIAL NOT INCLUDED GLOBE AND MAIL VERSION:

BEGIN QUOTE.

THE LEGISLATION WILL ELIMINATE SECTIONS OF THE INCOME TAX ACT PERMITTING ADVERTISERS TO CLAIM TAX DEDUCTIONS FOR ADVERTISING COSTS IN TIME, READER'S DIGEST AND SEVEN SMALLER PUBLICATIONS.

TO QUALIFY AS CANADIAN FOR TAX PURPOSES, THE MAGAZINES WLL HAVE TO BE 75 PER CENT CANDIAN OWNED, EFFECTIVELY CANADIAN-CONTROLLED BY BEING FREE FROM LICENCING ARRANGEMENTS WITH FOREIGN PUBLISHERS, AND SUBSTANTIALLY DIFFERENT IN CONTENT FROM ASSOCIATED FOREIGN PUBLICATIONS.

MR. FAULKNER SAID OFFICIALS IN HIS AND REVENUE
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MINISTER RON BASFORD'S DEPARTMENTS ARE REVIEWING THE

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FORMULA, OUTLINED BY MR. BASFORD LAST WEEK, FOR DETERMINING WHETHER A PUBLICATION HAS AN ACCEPTABLE CONTENT LEVEL.

SET CONTENT
MR. MBASFORD SAID TO BE JUDGED CANADIAN THE PUBLICATIONS WILL HAVE TO BE 80 PERCENT DIFFERENT IN EDITORIAL CONTENT FROM PARENT PUBLICATIONS IN THE U.S. OR ELSEWHERE. IF THEY ARE 60 PER CENT DIFFERENCT OR LESS THEY WILL BE CONSIDERED FOREIGN. CONSIDERATION WILL BE GIVEN ON A CASE-BY-CASE BASIS FOR PUBLICATIONS FALLING WITHIN THE 60-80 PERCENT RANGE.

TIME CANADA PRESIDENT STEPHEN LARUE OF TORONTO AND READER'S DIGEST PRESIDENT PAUL ZIMMERMAN OF MONTREAL SAID EARLIER THIS WEEK THEY COULD NOT ACCEPT THE CONTENT RESTRICTIONS.

MR. FAULKNER SAID WEDNESDAY THE FORMULA WAS NOT AN ATTEMPT TO SET CANADIAN CONTENT QUOTAS IN THE MAGAZINES "BUT TO ESTABLISH LEVELS OF COPY FROM A SINGLE SOURCE ABROAD IN ANY CANADIAN EDITION".

"THESE FIGURES ARE THE PARAMETERS THAT THE REVENUE DEPRTMENT HAS BEEN OPERATING WITHIN BUT THEY ARE UNDER REVIEW TO SEE IF THEY SHOULD STILL APPLY", HE SAID.

HE SAID THE FORMULA RAISES PROBLEMS FOR TIME BECAUSE THE BULK OF THE AVERAGE 100-PAGE WEEKLY NEWSMAGAZINE IS WRITTEN IN THE U.S. AND REPUBLISHED DOMESTICALLY WITH A FOUR TO 10-PAGE CANADIAN SECTION ADDED.

DIGEST DIVERSIFIED

READER'S DIGEST HAS A 25 PER CENT CANADIAN CONTENT IN ITS MONTHLY ENGLISH AND FRENCH EDITIONS BUT CULD STILL QUALIFY UNDER THE FORMULA BECAUSE IT DRAWS MATERIAL FROM EDITIONS IN MANY OTHER COUNTRIES BESIDES THE U.S., HE SAID.
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THE MAGAZINE COULD CONCEIVABLY REMAIN 25 PER CENT CANADIAN IN CONTENT YET 80 PER CENT DIFFERENT FROM THE U.S. PARENT PUBLICATION.

HE SAID THE READER'S DIGEST CANADIAN EDITION STILL WOULD HAVE TO OVERCOME THE OWNERSHIP AND LICENCING PROBLEMS BUT COULD POSSIBLY SURVIVE UNDER A NEW NAME,

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PERHAPS CANADIAN DIGEST.

ISSUE IGNORED
IT COULD DO THIS BY SELLING EQUITY TO ITS 500
EMPLOYEES TO INCREASE CANADIAN OWNERSHIP FROM THE
PRESENT 32.6 PER CENT TO 75 PER CENT AND BY SERVERING
ITS LICENSING ARRANGEMENTS WITH THE PARENT COMPANY.

HE SAID HE FORESAW A NAME CHANGE BECAUSE HE
DOUBTED PUBLISHERS OF EITHER READER'S DIGEST OR TIME
WOULD ALLOW EXISTING NAMES TO BE USED UNDER SUCH
DRASTICALLY CHANGED CONDITIONS.

MR. FAULKNER SAID HE AVOIDED DISCUSSING THE
ISSUE WITH THE PUBLISHERS BECAUSE DOING SO BEFORE
THE LEGISLATION WAS INTRODUCED WOULD BE PREMATURE.
MR. LARUE COMPLAINED THAT HE HAS BEEN UNABLE TO
CONFER WITH MR. FAULKNER SINCE LAST SEPT 5.

"THERE WILL BE NO PROBLEM ONCE THE BILL IS
INTRODUCED," MR. FAULKNER SAID. "ANY MAGAZINE INTERESTED
IN PUBLISHING IN THIS COUNTRY CAN REASONABLY EXPECT TO
GET A READING FROM THE GOVERNMENT ON THE PARTICULARS."

THE LEGISLATION STILL IS BEING DRAFTED AND WILL
BE INTRODUCED IN A MATTER OF WEEKS, HE SAID. IF
PASSED IT WOULD TAKE EFFECT NEXT JAN 1.

MR. LARUE HAS SAID TIME'S CANADA EDITION, WITH
550,000 SUBSCRIBERS, WILL BE FORCED OUT OF BUSINESS BY
THE MOVE. THE FIRM IS PREPARED TO SELL SHARES TO
CANADIANS BUT CANNOT ACCEPT CONTENT RESTRICTIONS, HE
SAID.
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MR. ZIMMERMAN SAID IN LETTERS TO 1,500,000 READER'S
DIGEST SUBSCRIBERS THAT THE MOVE WILL HAVE "GRAVE
CONSEQUENCES". HE INVITED SUBSCRIBERS TO URGE THEIR
MPS TO OPPOSE THE STEP.

CONFLICTING LOBBIES
MR. FAULKNER WAS BUSY THIS WEEK PREPARING TO
COUNTER THE ZIMMERMAN LOBBY. HE IS SENDING WRITTEN
INFORMATION ON THE ISSUE TO MPS FOR USE IN ANSWERING
THE DELUGE OF MAIL BROUGHT ON BY MR. ZIMMERMAN'S APPEAL.
SO FAR THE MPS HAVE BEEN "VERY REASONABLE" ABOUT THEIR
MAIL WHICH IS RUNNING HEAVILY IN FAVOR OF READER'S
DIGEST, HE SAID.

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HE SAID MANY MPS BELIEVE THEIR CONSTITUENTS HAVE MISTAKENLY CONCLUDED THAT THE TAX CHANGE WILL MEAN THE COMPLETE DISAPPEARANCE OF TIME AND READER'S DIGEST. CANADIANS WILL STILL BE ABLE TO BUY U.S. EDITIONS OF BOTH MAGAZINES, HE SAID.

HE DESCRIBED THE ZIMMERMAN LOBBY AND EARLIER APPEALS BY TIME TO ITS READERS AS "A MASSIVE ATTEMPT TO PERSUADE THE PEOPLE THAT THEY ALONE SHOULD HAVE AN EXEMPTION UNDER CANADIAN LAW.

"THEY ARE SAYING TO THE GOVERNMENT THAT OF ALL THE MAGAZINES IN THE WORLD, THEY SHOULD HAVE SPECIAL STATUS - AND THAT DOESN'T MAKE SENSE TO ME."

MR. FAULKNER SAID HIS MAIL FROM READER'S DIGEST SUBSCRIBERS HAS BEEN 90 PER CENT AGAINST THE GOVERNMENT BUT THAT OTHER MAIL ON THE ISSUE IS HEAVILY IN FAVOR OF ENDING THE SPECIAL TAX STATUS. END QUOTE

2. COMMENT: MONTEREAL GAZETTE ON MARCH 3 PUBLISHED CANADIAN PRESS ARTICLE REPORTING HEAVY VOTER PRESSURE BUILDING UP ON MPS AS A RESULT OF READER'S DIGEST WRITE-IN CAMPAIGN. CLIPPING BEING FORWARDED TO EUR/CAN. IT BEINGS TO APPEAR THAT FAULKNER AND OTHERS IN THE GOVERNMENT MAY HAVE UNDERESTIMATED BOTH LIMITED OFFICIAL USE

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THE WILLINGNESS AND THE CAPACITY OF THE TWO U.S. PUBLISHING ORGANIZATIONS TO AROUSE PUBLIC REACTION TO THE PROPOSED LEGISLATION. IT IS TOO SOON TO JUDGE WHAT THE FINAL EFFECT MAY BE, BUT CANADIAN MPS ARE USUALLY SENSITIVE TO THEIR CONSTITUENTS' VIEWS, ESPECIALLY WHEN PRESENTED IN ABSENCE OF OPPOSITION FROM THEIR DISTRICTS. IF PROBLEM ASSUMES SERIOUS PROPORTIONS THE GOVERNMENT MAY BE OBLIGED TO DEAL WITH IT AS A MATTER OF ITS OWN PARTY DISCIPLINE.

3. EMBASSSY HAS RECEIVED CONSERVATIVE PARTY RESEARCH DOCUMENT DATED FEB 28 AND IS ALSO FORWARDING COPY TO EUR/CAN. THIS DOCUMENT DOES OT SUGGEST DISSATISFACTION WITH GOC POLICY, BUT IMPLIES IT MAY BE INADQUATE ALONE TO ENCOURAGE INDEPENDENT CANADIAN PERIODICAL INDUSTRY. PROPOSES GOC AID IN ORGANIZATION OF NATIONAL DISTRIBUTION COMPANY, INSTITUTE GRANTS PROGRAM FOR CANADIAN PERIODICALS, AND REVISE POSTAL RATES AND SERVICE.
PORTER

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